Peace Officers' Retirement, Accident and Disability System Follow-up Presentation

Presentation to Retirement Systems Committee

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11/19/2009

Opening Comments

- POR Board of Trustees Meeting – 11/16/09
  - Approval of Language Changes Not Affecting Benefits
  - Benefit Change Studies Performed
  - Discussion of Scenarios / Modeling

Miscellaneous Questions Posed

- Workers' Compensation
  - POR **is not** the Workers' Compensation Provider
- Temporary Incapacity Provisions
- POR is a Social Security Exempt System

POR Investments

- Administered by the State Treasurer's Office, *Iowa Code*, 97A.5(5)
- Consultant
  - Buck Consultants, LLC

Manager Name	Market Value	% of Total
Gardner Lewis	$20,297,155.95	8.66%
Large cap stocks		
SSGA	$18,328,062.97	7.82%
Large cap stocks		
Fisher	$40,567,539.93	17.30%
Small cap stocks		
Dix Hills	$14,473,626.52	6.17%
Fixed Income		
Loomis Sayles	$57,586,952.76	24.56%
Fixed Income		
Walter Scott	$12,825,580.77	5.47%
International stocks		
Baillie Gifford	$36,634,288.15	15.62%
International stocks		
Principal	$11,733,165.10	5.00%
Real Estate		
Liquidity	$22,058,343.20	9.41%
Total	$234,504,715.35	100.00%

As of 06/30/09

Comparison of POR to Adjacent States

	Iowa	Illinois	Wisconsin	Missouri Closed Plan	Missouri 2000 Plan	Nebraska	Minnesota
Member Contributions	9.35%	12.50%	3.90%			13.00%	10.40%
Employer Contributions	21.00% *	Set by Statute	11.60%	100% ***	100% ***	15.00%	15.60%
Maximum Service Retirement Benefit	88.00%	80.00%	85.00%			75.00%	71.00%
Vesting	4 Years	4 Years		5 Years	5 Years	6 Years	3 Years
Benefit Calculation	High 3	High 4	High 3	High 3	High 3	High 3	High 5
Social Security Exempt System	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COLA's	Variable + Flat $	3%	2.67% only if ROI is > 5%	Based on 80% of the increase in the CPI-U; annual minimum, maximum 5%	Based on 80% of the change in the CPI-U with a maximum of 5%.	Based on CPI-W not to exceed 2.5%	Based on CPI-W not to exceed 2.5%
Age/Service Requirement for Service Retirement	Age 55 / 22 YOS	Age 50 / 25 YOS	Age 53 / 25 YOS	55	60	Age 50 /25 YOS	55
Funded Ratio / Status	69.90%	46.10%	99.70%	59.00%	59.00%	93.6% as of 06/30/08)	85.79%
Rate of Return	8.00%	8.50%	7.85%	8.25%	8.25%		6.0% post-retirement 8.0% pre-retirement
Costing Method	Entry Age Normal	Project Unit Credit	Frozen Entry Age	Entry Age Normal	Entry Age Normal		Entry Age Normal
Mortality Tables	RP 2000	1994 GAM	2005 WPE **	1971 Group Annuity Mortality	1971 Group Annuity Mortality		1983 GAM
* to increase every yr 2% until year 2013							
** Wisconsin Projected Experience;							
*** 100% of required contribution rate							

The above data does not represent a comprehensive comparison of benefit structures and actuarial data of state-level law enforcement retirement systems of states surrounding Iowa. The information was compiled from published data pertaining to the state retirement systems listed. It should be noted that availability of data and reports varied. Financial data of public retirement systems is difficult to study consistently across systems because of timing differences and inconsistencies in the actuarial methodologies utilized.

Proposed Language Changes Not Affecting Benefits

Code Section		Concept/Reason for Change	Talking Points
97A.16(6)	Definitions	Reference to Social Security Act reference "Child" appears to be wrong.	Clean-up / Clarification
97A.6(5)(b)	Temporary Incapacity	Move Temporary Incapacity language to Chapter 80.	Temporary Incapacity not a POR benefit.
97A.6(7)(a)(2)	Disability Retirement	Documentation required for proof of income for disability retirees under age 55 needs to be federal return.	Clarification
97A.10	Purchase of Permissive Service	Repeal the subsection regarding purchase of permissive service credit.	Window has expired for purchase of permissive service,
97A.5(7)	Administrative	Ability for System to retain legal services for specific issues / cases as deemed necessary by Board.	IRS tax expertise as an example
97A.6(2)(6)	Benefits	Under current law there is contrary language regarding the calculation of an ordinary disability allowance.	Clean-up / Clarification requested

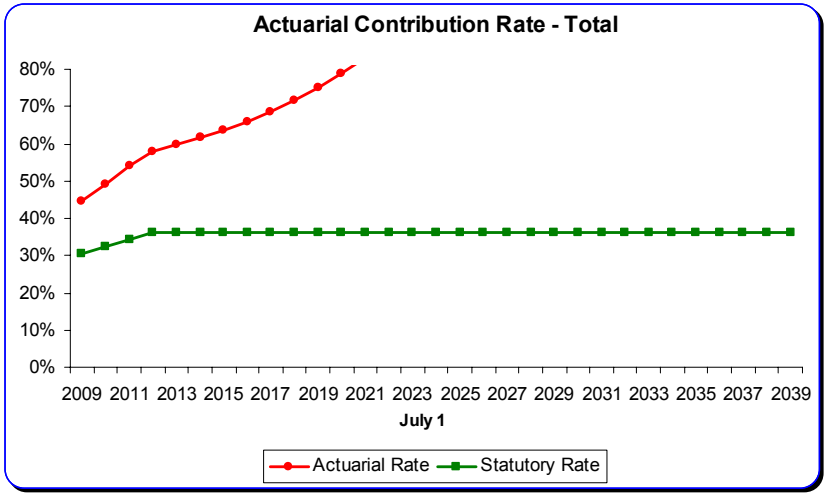
Proposed Language Chgs. – Cont.

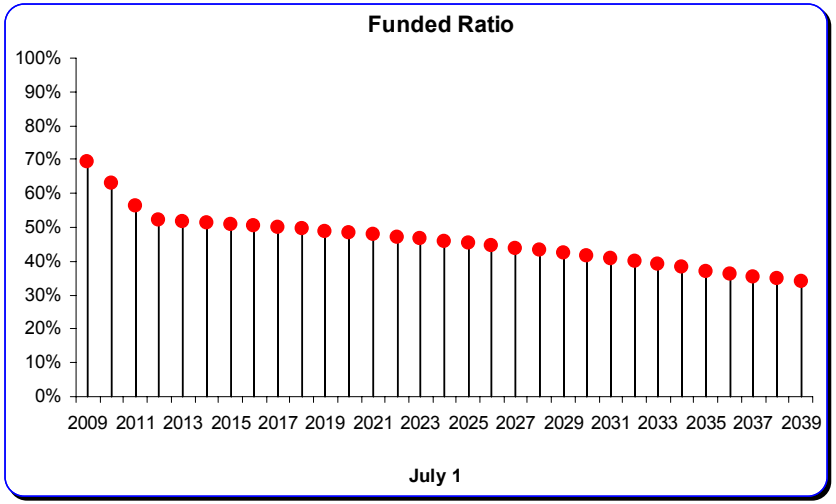
Code Section		Concept/Reason for Change	Talking Points
97A.6(7)(3)(b)	Re-employment After Disability	Change the conditions for return to work after a disability retirement upon re-examination by limiting service credit allowed to 2 years. Currently no limit.	
97A.11	Contributions by the State	Change the deadline for setting state contribution rates from November 1 to January 1.	Timing issues for completion of audit, valuation report and Board Meetings.
97A.14	Hospitalization and Medical Attention	Need a definition for "Medical Attention". Request language for processing of medical reimbursements.	

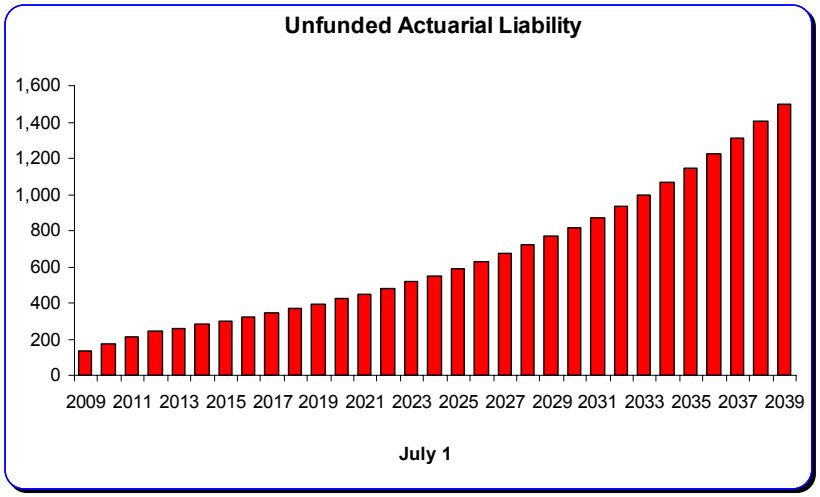
Benefit Change Studies

- 1) Amend 97A.1(3) by modifying the definition of "Average Final Compensation" to be based on the member's highest five years of service instead of the highest three years.
- 2) Amend 97A.1(9) by eliminating daily meal allowance from inclusion in the definition of earnable compensation. Those remaining elements would be the regular stated compensation (bi-weekly salary) and longevity pay.
- 3) Amend 97A.1(9) by eliminating longevity pay from inclusion in the definition of earnable compensation. Those remaining elements would be the regular stated compensation (bi-weekly salary) daily meal allowance.
- 4) Amend 97A.6(14)(2) by striking the "flat escalation" based on years since having retired ($15 for 0<5 yrs, $20 for years 5 - 10, and so on). This change would only impact future retirees.

Baseline – Current Contribution Schedule





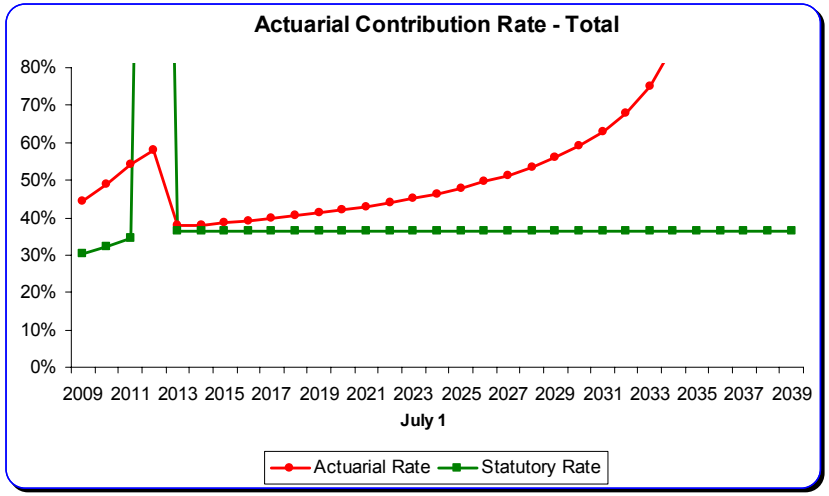


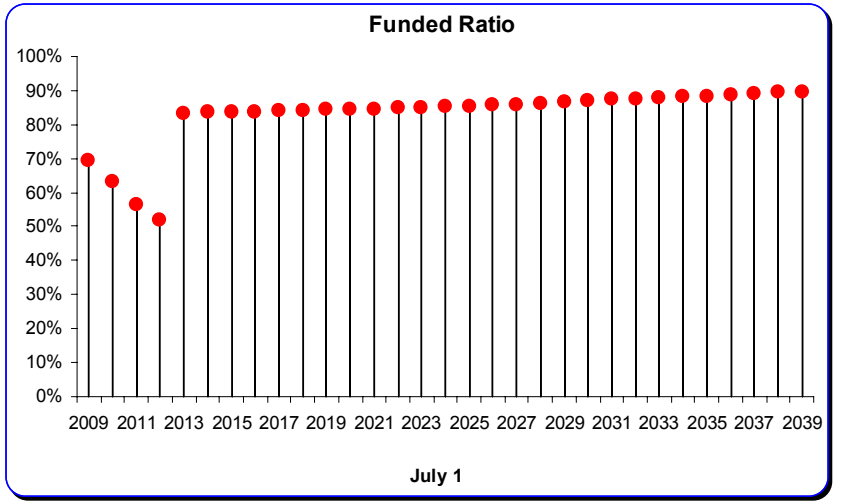
Year	Contribution Rate	Funded Ratio	UAL ($M)
2009	44.50%	69%	$ 133
2014	61.55%	51%	$ 279
2019	74.98%	49%	$ 393
2024	99.50%	46%	$ 551
2029	153.05%	42%	$ 765
2034	336.71%	38%	$1,066

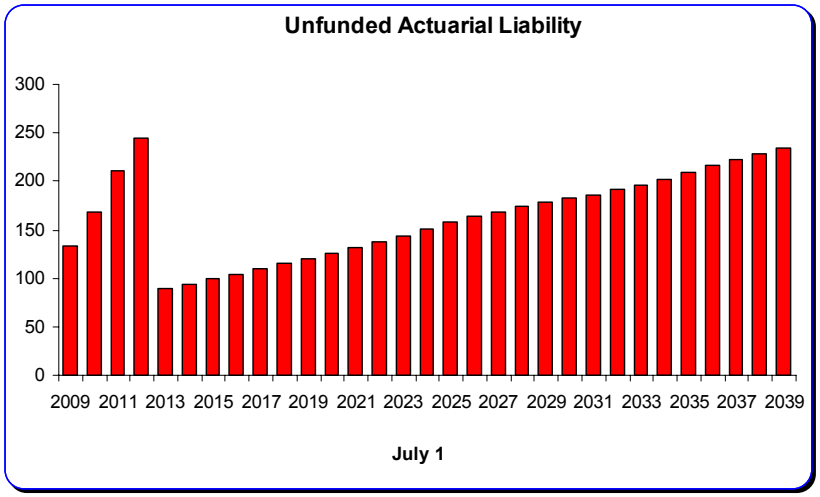
Scenario 1 – Fix it Now

- Cash infusion totaling $165 million effective July 1, 2012
- All other assumptions remain unchanged

Scenario 1- $165 M in 2012 (Current Return Assumption)





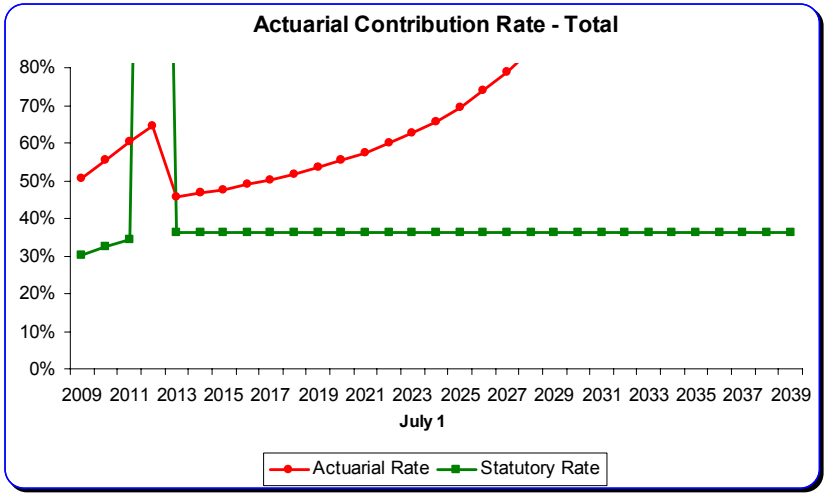


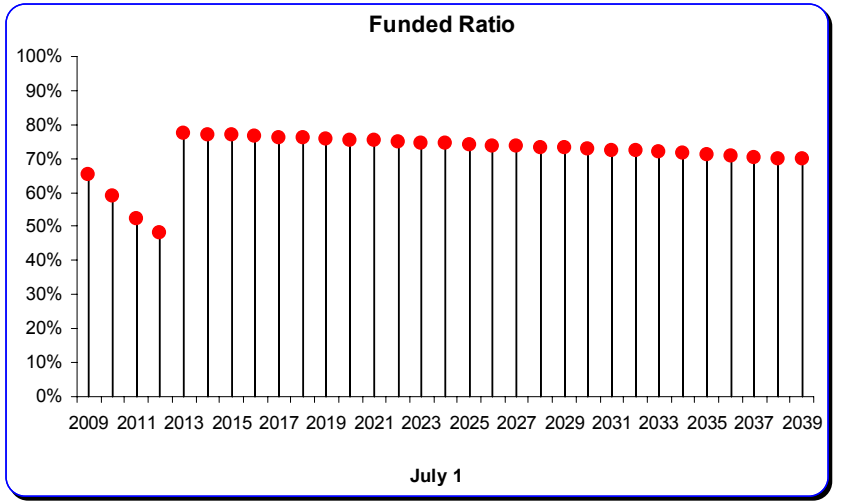
Year	Contribution Rate	Funded Ratio	UAL ($M)
2009	44.50%	69%	$ 133
2014	38.10%	84%	$ 94
2019	41.18%	84%	$ 121
2024	46.33%	85%	$ 151
2029	55.94%	87%	$ 178
2034	85.62%	88%	$ 202

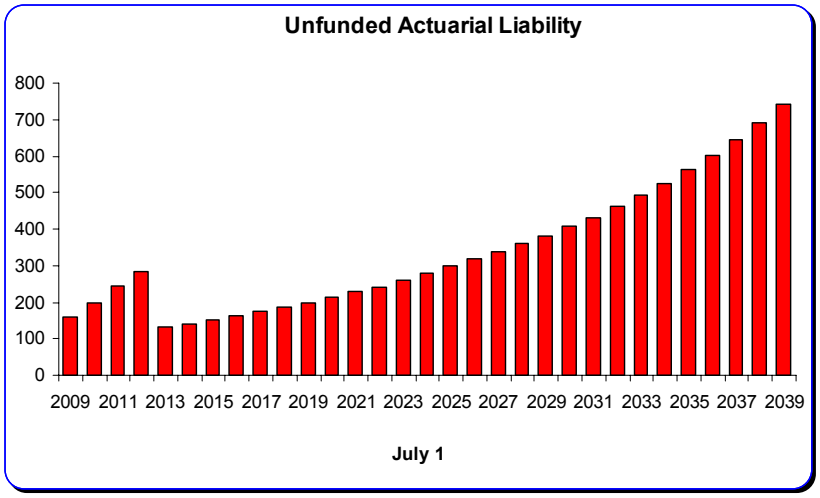
Scenario 2 – Fix it Now, but with 7.5% ROI

- Cash infusion totaling $165 million effective July 1, 2012
- Reduce the assumed rate of return from 8.0% to 7.5%
- All other assumptions remain unchanged

Scenario 2- $165 in 2012 (7.5% Return Assumption)







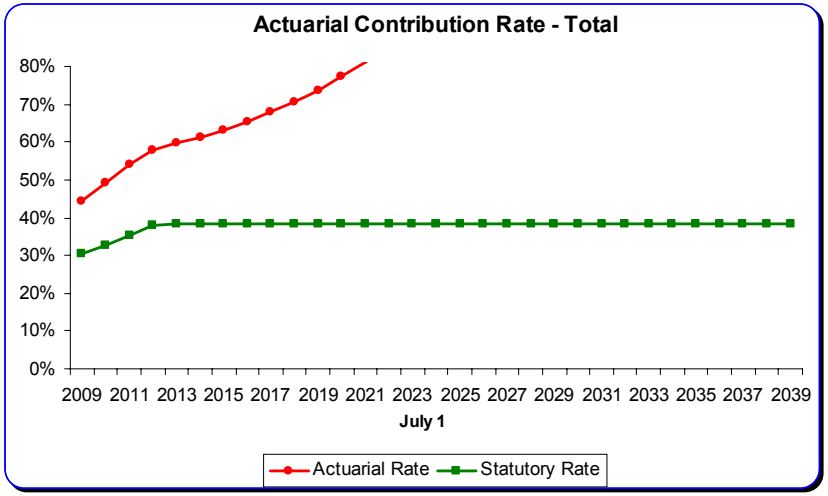
Year	Contribution Rate	Funded Ratio	UAL ($M)
2009*	50.75%	65%	$ 161
2014	46.67%	77%	$ 140
2019	53.49%	76%	$ 199
2024	65.79%	74%	$ 279
2029	92.04%	73%	$ 382
2034	181.77%	72%	$ 525

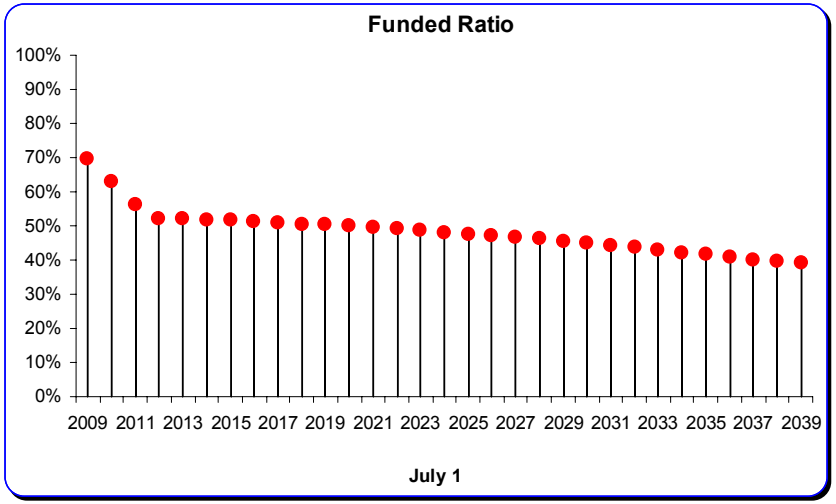
* Results have been restated using an assumed rate of return of 7.5%

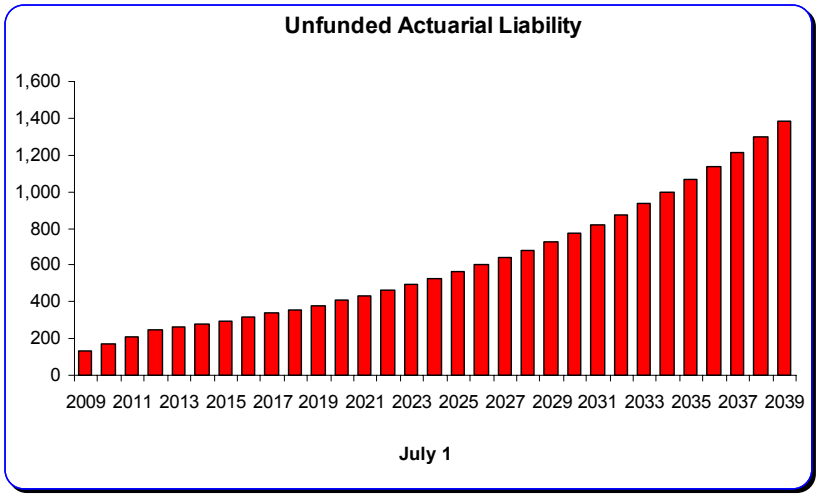
Scenario 3 – Minimal Rate Change

- Employer Contribution remains unchanged
- Member contribution increases by 0.5% on July 1, 2010, 0.5% on July 1, 2011, 0.5% on July 1, 2012, 0.45% on July 1, 2013 maxed at 11.3% on July 1, 2013
- All other assumptions remain unchanged

Scenario 3- Increase member rates 2% over 4 years





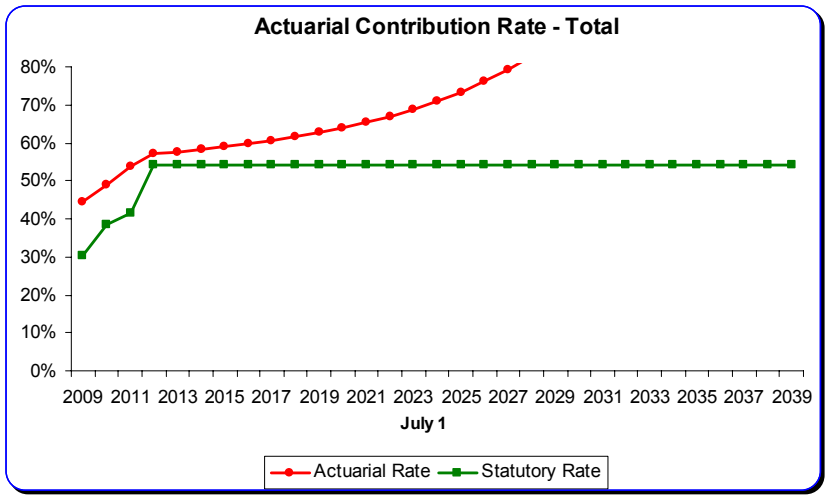


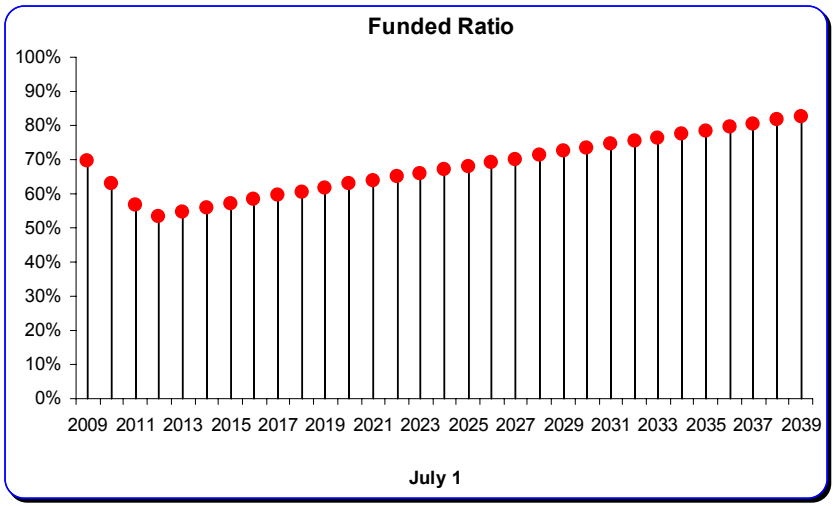
Year	Contribution Rate	Funded Ratio	UAL ($M)
2009	44.50%	69%	$ 133
2014	61.22%	52%	$ 277
2019	73.73%	50%	$ 383
2024	96.53%	48%	$ 528
2029	146.20%	46%	$ 724
2034	316.11%	42%	$ 995

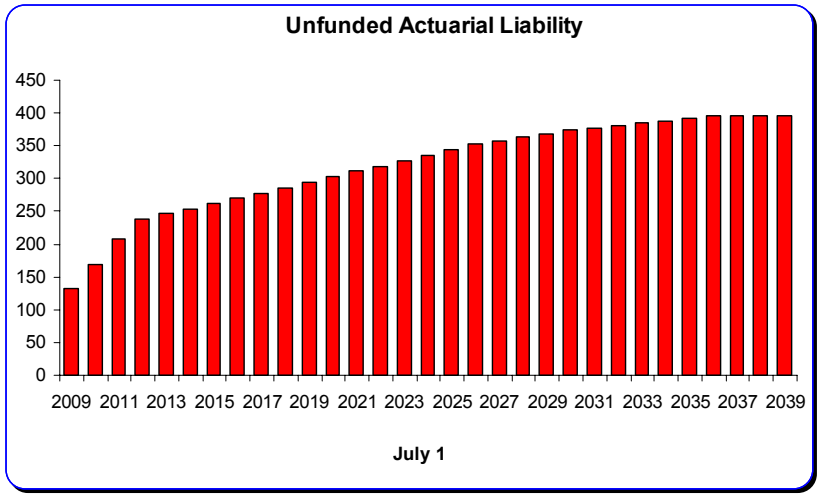
Scenario 4 – Actuarial Rate with 60/40 split

- Employer Contribution remains unchanged
- Member contribution moves immediately to 40% of total contribution rate. So, member contribution is 15.35% on 7/1/2010, 16.65% on 7/1/2011 and 18.00% on 7/1/2012.
- All other assumptions remain unchanged

Scenario 4- member rate to 18% by 2012, Employer same





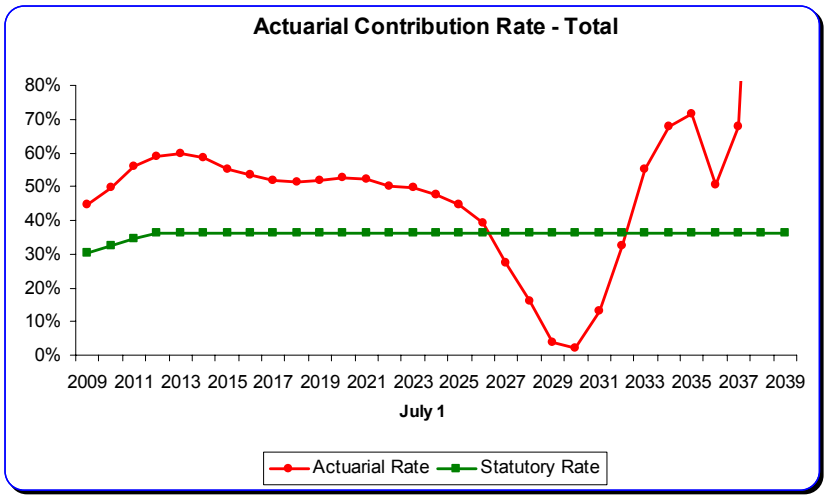


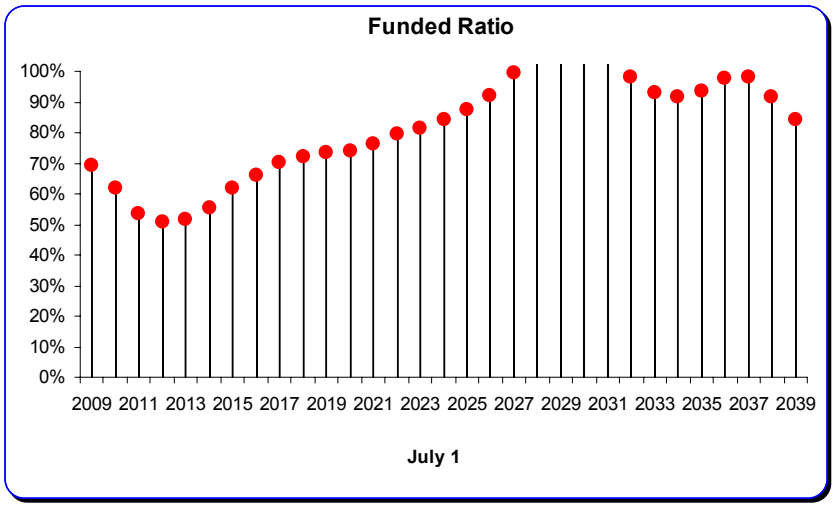
Year	Contribution Rate	Funded Ratio	UAL ($M)
2009	44.50%	69%	$ 133
2014	58.23%	56%	$ 253
2019	62.77%	62%	$ 294
2024	70.92%	67%	$ 336
2029	87.37%	72%	$ 368
2034	139.64%	77%	$ 388

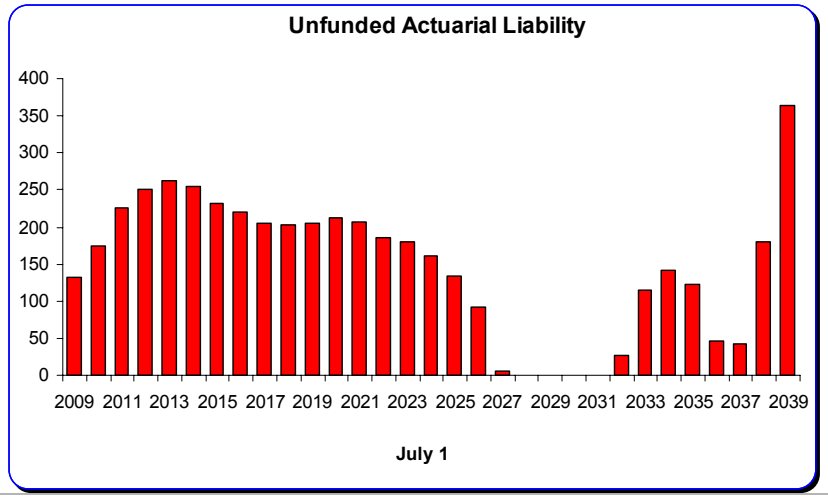
Scenario 5 – Next 28 mirrors Last 28

- Return on investment mirrors performance during previous 28 years
- All other assumptions remain unchanged

Scenario 5- Rate of Return next 28 Years mirrors last 28







Year	Contribution Rate	Funded Ratio	UAL ($M)
2009	44.50%	69%	$ 133
2014	58.46%	56%	$ 255
2019	51.70%	73%	$ 205
2024	47.69%	84%	$ 161
2029	3.87%	110%	$ (137)
2034	67.91%	92%	$ 141

Next Steps

- What We Can Model
  - Contribution Rate Changes
  - Lump Sum Cash Infusions
  - Changes in Assumed Return on Investment
- What Requires Actuarial Study
  - Plan Provision Changes
- Significant long-term funding problem
- Wide-range of options / approaches
- Make decisions that start moving the System in the right direction